

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**JUNE 30, 2004**

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**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**OFFICIALS**

**JUNE 30, 2004**

Board of Trustees serving from January 1, 2004 through December 31, 2004

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/04
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/05

Board of Trustees serving from January 1, 2003 through December 31, 2003

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/07
Doug Farley	Secretary	12/31/04
Mike Eilers	Trustee	12/31/05
Craig Strutt	Trustee	12/31/03
Dennis Regal	Trustee	12/31/03

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
McGregor Municipal Utilities  
McGregor, Iowa

We have audited the accompanying financial statements of the McGregor Municipal Utilities (Electric and Water Enterprise funds) of McGregor, Iowa, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City of McGregor, Iowa management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Electric and Water Enterprise funds and do not purport to, and do not, present fairly the financial position of the City of McGregor, Iowa, as of June 30, 2004, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Enterprise funds of the City of McGregor, Iowa, as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 to the financial statements, for the year ended June 30, 2004, the McGregor Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004 on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 and budgetary comparison information on pages 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the city's business type activities. The accompanying other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion labeled as "unaudited", which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 13, 2004

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

**FINANCIAL HIGHLIGHTS**

- The Utilities' net assets increased by \$16,848 throughout the year's operation to \$693,267.
- During the year, the Utilities' expenses were \$574,752.
- The Utilities' service revenues for the year were \$587,148.
- The Utilities also recorded unrestricted investment earnings of \$4,453.
- The Water Fund reported a net result of income and expenses of \$11,488.
- The Electric Fund reported a net result of income and expenses of \$5,361.
- The resources available for appropriation were \$75,474 less than budgeted for the Utilities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the government-wide statements
  - Proprietary fund statements offer short- and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarized the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of McGregor Municipal Utilities Business Type Activities  
and Fund Financial Statements

		Fund Statements
	Business Type Activities	Proprietary Fund
Scope	Business type activities	Activities the Utilities operate similar to private businesses
Required financial statements	Statement of Net Assets Statement of Activities	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Assets Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Utilities' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net assets and how they have changed. Net assets - the difference between the Utilities' assets and liabilities - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Utilities you need to consider additional nonfinancial factors such as changes in the Utilities' rates and the condition of the Utilities' equipment.

### Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Utilities Board establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain monies.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information
  - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

### Net Assets

The Utilities' combined net assets increased by \$16,848 throughout the year's operation to \$693,267. This includes \$4,453 of unrestricted investment earnings.

### Changes in Net Assets

The Utilities' total revenues (charges for services) during the year were \$587,148. Virtually all of the Utilities' revenue comes from user fees. The cost of electricity from their wholesaler was increased by 11.7% therefore their electric user fees were increased by 10.9%.

## FINANCIAL ANALYSIS OF THE UTILITIES FUNDS

### Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the Accrual Basis of accounting and economic resources measurement focus. The following tables present condensed information in net assets and changes in net assets for the years ended June 30, 2004 and 2003.

	Business Type Activities		Total
	2004	2003	Percentage Change
Assets:			
Current assets	\$ 484,675	\$ 447,050	8.4%
Capital assets	252,797	273,626	(7.6%)
Total Assets	\$ 737,472	\$ 720,676	2.3%
Total Liabilities	\$ 44,205	\$ 44,258	(.1%)
Net Assets:			
Investment in capital assets,			
Net of depreciation	\$ 252,797	\$ 273,626	(7.6%)
Unrestricted	440,470	402,792	9.4%
Total Net Assets	\$ 693,267	\$ 676,418	2.5%



The amount by which the Utilities' assets exceed its liabilities is called net assets. At year end, the Utilities' assets were \$693,267. Of that amount, approximately \$252,797 was invested in capital assets, net of depreciation related to those assets. The remaining \$440,470 was unrestricted and available for future use as directed by the Board of Trustees.

	Business Type Activities		Total
	2004	2003	Percentage
			Change
Revenues:			
Charges for service	\$ 587,148	\$ 530,693	10.6%
Interest earned	4,453	6,897	35.4%
Total Revenues	\$ 591,601	\$ 537,590	10.0%
Business Type Activities Expenses:			
Electric	\$ 527,882	\$ 476,514	10.8%
Water	46,870	44,018	6.5%
Total Business Type Activities Expenses	\$ 574,752	\$ 520,532	10.4%
Increase in Net Assets	\$ 16,849	\$ 17,058	(1.2%)

### **Budgetary Highlights**

The Utilities does not keep a separate budget; their budget is four line items on the City Budget, revenue for the Water and Electric with an expense for each also. The Utilities acknowledged \$79,927 less in charges for services than what was budgeted, and \$58,123 less of business type activities disbursements. The Utilities received \$4,453 of investment earnings that was not budgeted for the year. Leaving the net effect of a deficiency of receipts and other financing sources under disbursements and other financing uses of \$17,351. Over the course of the year, the Utilities Board did not revise the budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

As of June 30, 2004, the Utilities had invested \$1,485,184 (\$252,797 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$6,853 over last year. This year's major capital asset additions included extensions to the distribution system.

### **Long-term Debt**

At year-end the Utilities had no outstanding debt.

**Economic Factors Bearing on the Utilities' Future**

The Utilities' largest vulnerability for sizeable capital project is a generator. There are two options if one of the three generators expires. The Utilities can purchase power at a higher rate or buy a new engine. The Board has decided when this happens to have an engineering study done to investigate what option would be best for the city.

In the future the Utilities will be joining the two water systems (Well 6 & 7). The Utilities has no plans to issue additional debt to finance this project. Rather the Board has decided to wait for the city to raise enough money through the TIFF district tax in order to fund the connection.

**CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and investors, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Utilities office, 126 First Street, McGregor, IA 52057.

**EXHIBIT A****McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA****STATEMENT OF NET ASSETS****JUNE 30, 2004**

	Business Type Activities
	-----
<b>Assets</b>	
Cash	\$ 184,267
Receivables:	
Customer accounts	
Net of allowance for doubtful accounts of \$7,825	82,600
Custodial accounts	27,668
Inventories	101,207
Restricted assets:	
Cash	88,933
Capital assets (net of accumulated depreciation)	252,797
	-----
Total assets	\$ 737,472
	-----
<b>Liabilities</b>	
Current Liabilities:	
Accounts payable	\$ 8,877
Flex spending	1,541
Customer deposits (payable from restricted assets)	6,119
Custodial accounts	27,668
	-----
Total liabilities	\$ 44,205
	-----
<b>Net Assets</b>	
Invested in capital assets, net of related debt	\$ 252,797
Unrestricted	440,470
	-----
Total net assets	\$ 693,267
	=====

See notes to financial statements.

**EXHIBIT B**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2004**

	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions	Total
	-----	-----	-----	-----	-----
<b><u>Function/Program:</u></b>					
<b>Business Type Activities:</b>					
Electric	\$ 527,882	\$ 529,724	\$ ---	\$ ---	\$ 1,842
Water	46,870	57,424	---	---	10,554
	-----	-----	-----	-----	-----
Total Business Type Activities	\$ 574,752	\$ 587,148	\$ ---	\$ ---	\$ 12,396
	-----	-----	-----	-----	-----
<b>General Revenues:</b>					
Unrestricted investment earnings					\$ 4,453
					-----
Total General Revenues					\$ 4,453
					-----
Change in net assets					\$ 16,849
					-----
Net assets – beginning of year					\$676,418
					-----
Net assets – end of year					\$693,267
					=====

See notes to financial statements.

**EXHIBIT C**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**JUNE 30, 2004**

	Proprietary Funds		
	Electric	Water	Total
Assets			
Cash	\$ 106,433	\$ 77,834	\$ 184,267
Receivables			
Customer accounts			
Net of allowance for doubtful account			
of \$6,617 and \$1,208 respectively	74,196	8,404	82,600
Custodial accounts	---	27,668	27,668
Inventories	78,230	22,977	101,207
Restricted assets:			
Cash	88,933	---	88,933
Capital assets (net of accumulated depreciation)	171,155	81,642	252,797
	-----	-----	-----
Total Assets	\$ 518,947	\$ 218,525	\$ 737,472
	-----	-----	-----
Liabilities			
Accounts payable	\$ 5,592	\$ 3,285	\$ 8,877
Flex spending	1,541	---	1,541
Payable from restricted assets:			
Customer deposits	6,119	---	6,119
Custodial accounts	---	27,668	27,668
	-----	-----	-----
Total liabilities	\$ 13,252	\$ 30,953	\$ 44,205
	-----	-----	-----
Net Assets			
Invested in capital assets, net of related debt	\$ 171,155	\$ 81,642	\$ 252,797
Unrestricted			
Undesignated	258,047	105,930	363,977
Board designated	76,493	---	76,493
	-----	-----	-----
Total net assets	\$ 505,695	\$ 187,572	\$ 693,267
	=====	=====	=====

See notes to financial statements.

**EXHIBIT D**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

	Proprietary Funds		
	Electric	Water	Total
Operating Revenue			
Charges for service	\$ 522,077	\$ 54,948	\$ 577,025
Miscellaneous	7,647	2,476	10,123
Total Operating Revenue	\$ 529,724	\$ 57,424	\$ 587,148
Operating Expenses:			
Production Expenses:			
Supervision and labor	\$ 44,173	\$ 2,225	\$ 46,398
Generator and boiler fuel	12,840	304	13,144
Power and pumping	---	5,432	5,432
Chemicals	---	1,073	1,073
Payroll taxes and IPERS	7,177	310	7,487
Sales and use taxes	24,036	3,326	27,362
Insurance - employee medical	7,177	282	7,459
Insurance - general	7,242	865	8,107
Supplies	2,567	320	2,887
Maintenance material and labor	4,570	905	5,475
Miscellaneous	1,169	137	1,306
Purchase electrical power	260,294	---	260,294
Total Production Expenses	\$ 371,245	\$ 15,179	\$ 386,424
Distribution Expenses:			
Supervision and labor	\$ 18,665	\$ 1,594	\$ 20,259
Truck expenses	9,840	2,043	11,883
Payroll taxes and IPERS	3,349	222	3,571
Insurance - employee medical	3,349	202	3,551
Insurance - general	4,827	3,459	8,286
Supplies	13,253	1,832	15,085
Maintenance material and labor	1,088	2,254	3,342
Miscellaneous	6,716	1,435	8,151
Water lab tests	---	667	667
Total Distribution Expenses	\$ 61,087	\$ 13,708	\$ 74,795

See notes to financial statements.

**EXHIBIT D (continued)**

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2004**

	Proprietary Funds		
	Electric	Water	Total
Operating Expenses: (Continued)			
Accounting and Collection Expenses:			
Salary and wages	\$ 41,565	\$ 4,151	\$ 45,716
Payroll taxes and IPERS	5,422	186	5,608
Insurance - employee medical	5,423	169	5,592
Bad debts	847	61	908
Office supplies	4,003	1,196	5,199
Miscellaneous	2,516	1,167	3,683
Total Accounting and Collection Expenses	\$ 59,776	\$ 6,930	\$ 66,706
Administrative and General:			
Trustee and treasurer fees	\$ 650	\$ 650	\$ 1,300
Professional services & publications expenses	11,455	1,939	13,394
Supplies and miscellaneous	1,145	742	1,887
City - County garage	1,074	---	1,074
Energy efficiency program	1,438	---	1,438
Total Administrative and General Expenses	\$ 15,762	\$ 3,331	\$ 19,093
Total Operating Expenses Before Depreciation	\$ 507,870	\$ 39,148	\$ 547,018
Depreciation	19,960	7,722	27,682
Net Operating Expenses	\$ 527,830	\$ 46,870	\$ 574,700
Net Operating Revenue (Expense)	\$ 1,894	\$ 10,554	\$ 12,448
Non-Operating Revenue (Expenses):			
Interest income	\$ 3,519	\$ 934	\$ 4,453
Interest expense	(52.)	---	(52.)
Total Non-Operating Revenue (Expense)	\$ 3,467	\$ 934	\$ 4,401
Change in Net Assets	\$ 5,361	\$ 11,488	\$ 16,849
Net Assets Beginning of Year	\$ 500,334	\$ 176,084	\$ 676,418
Net Assets End of Year	\$ 505,695	\$ 187,572	\$ 693,267
	=====	=====	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

	Proprietary Funds		
	Electric	Water	Total
Cash flows from operating activities:			
Cash received from customers and users	\$ 520,567	\$ 55,313	\$ 575,880
Cash received from other revenues	7,647	2,476	10,123
Cash paid for personal services	(136,950.)	(9,991.)	(146,941.)
Cash paid to suppliers	(115,662.)	(30,295.)	(145,957.)
Cash paid for purchased power	(260,294.)	---	(260,294.)
Net cash provided by operating activities	\$ 15,308	\$ 17,503	\$ 32,811
Cash flows from capital and related financing activities:			
Acquisition of capital assets	\$ (5,886.)	\$ (967.)	\$ (6,853.)
Interest paid on meter deposits	(52.)	---	(52.)
Net cash used for capital and related financing activities	\$ (5,938.)	\$ (967.)	\$ (6,905.)
Cash flows from investing activities:			
Interest on investments	\$ 3,519	\$ 934	\$ 4,453
Net cash provided by investing activities	\$ 3,519	\$ 934	\$ 4,453
Net increase in cash and cash equivalents	\$ 12,889	\$ 17,470	\$ 30,359
Cash and cash equivalents beginning of year	182,477	60,364	242,841
Cash and cash equivalents end of year	\$ 195,366	\$ 77,834	\$ 273,200

See notes to financial statements.



**EXHIBIT E (continued)**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

	Proprietary Funds		
	Electric	Water	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,894	\$ 10,554	\$ 12,448
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	19,960	7,722	27,682
Allowance for doubtful accounts	1,130	(81.)	1,049
Decrease in customer accounts receivable	(10,132.)	142	(9,990.)
Decrease in custodial account	---	162	162
(Increase) decrease in inventories, at cost	2,434	(921.)	1,513
Increase (decrease) in accounts payable	39	88	127
Increase (decrease) flex spending	(895.)	---	(895.)
Increase in customer deposits	878	---	878
(Decrease) in custodial accounts	---	(163.)	(163.)
	-----	-----	-----
Net cash provided by operating activities	\$ 15,308	\$ 17,503	\$ 32,811
	=====	=====	=====
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:			
Current assets:			
Cash	\$ 106,433	\$ 77,834	\$ 184,267
Restricted assets:			
Cash:			
Revenue contingency bond	76,493	---	76,493
Customer deposits	6,120	---	6,120
Special projects	6,320	---	6,320
	-----	-----	-----
Cash and cash equivalents at year end	\$ 195,366	\$ 77,834	\$ 273,200
	=====	=====	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**Note 1 - Summary of Significant Accounting Policies:**

The McGregor Municipal Utilities (the Utility) are separate enterprise funds of the City of McGregor. The Utility accounts for the cost of operations on a continuing basis.

The Utility provides electricity and water to properties within the City of McGregor and is managed by the Board of Trustees, who are appointed by the mayor and approved by the City Council.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

**B. Basis of Presentation**

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utility's proprietary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

**C. Measurement Focus and Basis of Accounting**

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are capitalized in proprietary funds. Proceeds of general long-term debt are reported as other financing sources.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Customer Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed.

The Utility uses the allowance method of accounting for bad debts, which is a percentage of the accounts receivable. Bad debts charged (recoveries) against the Electric and Water Funds for the year ended June 30, 2004 were \$847 and \$91 respectively.

Custodial Accounts Receivable - Custodial accounts receivable consists of the Utility's collection of sewer, garbage and storm sewer fees for the city, which the Utility will remit to the city.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Board designated funds set aside for the repair or replacement of the Utility's electric generators. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers or special projects.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	10-33 years
Generators and Equipment	8-25 years
Distribution System	20-25 years
Vehicles	5-10 years
Office Equipment	10 years
Interconnect	25 years

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. These accumulations are not considered material and are not recognized as expenditures by the Utility until used. The Utility's policy provides for payout of accumulated vacation and prohibits payoff of accumulated sick time at termination of employment. The Utility's approximate liability for earned vacation payments to employees at June 30, 2004 was \$2,021 for Electric Fund and \$674 for Water Fund. The liability has been computed based on rates of pay at June 30, 2004.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the Municipal Utilities funds.

**Note 2 - Cash and Pooled Investments:**

The Utility's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**Note 3 – Capital Assets:**

Capital assets activity for the year ended June 30, 2004 was as follows:

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

	Balance Beginning of Year -----	Increases -----	Decreases -----	Balance End of Year -----
<b>Business type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Total capital assets not being depreciated	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Capital assets being depreciated:				
Buildings	\$ 59,692	\$ ---	\$ ---	\$ 59,692
Office equipment	23,779	---	---	23,779
Generators and equipment	632,399	---	---	632,399
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	547,443	6,853	---	554,296
Interconnect	64,809	---	---	64,809
Vehicles	72,614	---	---	72,614
Well	12,005	---	---	12,005
Reservoir	44,409	---	---	44,409
	-----	-----	-----	-----
Total capital assets being depreciated	\$1,477,191	\$ 6,853	\$ ---	\$1,484,044
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings	\$ 47,497	\$ 705	\$ ---	\$ 48,202
Office equipment	23,779	---	---	23,779
Generators and equipment	579,862	3,536	---	583,398
Pump and equipment	16,081	---	---	16,081
Chlorinator	3,960	---	---	3,960
Distribution system	399,822	14,325	---	414,147
Interconnect	64,809	---	---	64,809
Vehicles	46,830	6,400	---	53,230
Well	8,294	763	---	9,057
Reservoir	13,771	1,953	---	15,724
	-----	-----	-----	-----
Total accumulated depreciation	\$1,204,705	\$ 27,682	\$ ---	\$1,232,387
	-----	-----	-----	-----
Total capital assets being depreciated, net	\$ 272,486	\$ (20,829.)	\$ ---	\$ 251,657
	-----	-----	-----	-----
Business type activities capital assets, net	\$ 273,626	\$ (20,829.)	\$ ---	\$ 252,797
	=====	=====	=====	=====

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

Depreciation expense was charged to functions of the primary proprietary funds as follows:

Business type activities:

Water	\$ 7,722
Electric	19,960
	-----
Total depreciation expense – business type activities	\$ 27,682
	=====

**Note 4 – Pension and Retirement Benefits:**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$7,007, \$6,522, and \$6,048, respectively, equal to the required contributions for each year.

**Note 5 – Risk Management:**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**Note 6 – Firm Power Agreement:**

On November 20, 1996, the Utility entered into a “Firm Power Agreement” with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement shall become effective on April 1, 1997, and shall remain in effect through March 31, 2007, unless sooner terminated as provided in Section 3.03 of this November 20, 1996 Agreement. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$260,294 for purchased power under this agreement for the year ended June 30, 2004.

**Note 7 – Accounting Change:**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utility's financial activities. The financial statements now include government-wide financial statements (for the business type activities only) prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) –  
PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2004**

	Proprietary Funds Actual	<u>Budgeted Amounts</u>		Final to Actual Variance
	-----	-----	-----	-----
Receipts:				
Charges for services	\$ 586,003	\$ 665,930	\$ 665,930	\$ (79,927.)
Investment earnings	4,453	---	---	4,453
Disbursements:				
Business type activities	560,097	618,220	618,220	58,123
	-----	-----	-----	-----
Excess (deficiency) of receipts over (under) disbursements	\$ 30,359	\$ 47,710	\$ 47,710	\$ (17,351.)
Balances beginning of year	676,418	676,418	676,418	---
	-----	-----	-----	-----
Balances end of year	\$ 706,777	\$ 724,128	\$ 724,128	\$ 17,351
	=====	=====	=====	=====

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004**

	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 590,456	\$ 1,145	\$ 591,601
Expenditures/expenses	560,097	14,655	574,752
Net	\$ 30,359	\$ (13,510.)	\$ 16,849
Beginning fund balances/net assets	676,418	---	676,418
Ending fund balances/net assets	\$ 706,777	\$ (13,510.)	\$ 693,267
	=====	=====	=====

See accompanying independent auditor's reports.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the city wide aggregated function level, not by fund.

## **OTHER SUPPLEMENTARY INFORMATION**

**SCHEDULE "1"**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA  
ELECTRIC FUND**

**SALES ANALYSIS FOR THE YEAR ENDED  
JUNE 30, 2004 – CASH BASIS WITH COMPARATIVE  
FIGURES FOR THE THREE PREVIOUS YEARS  
UNAUDITED**

	Year Ended			
	2004	2003	2002	2001
KWH Sold:				
Residential	3,150,104KWH	3,136,888KWH	2,930,868KWH	3,034,830KWH
Industrial	1,871,920KWH	2,058,840KWH	2,031,960KWH	2,011,440KWH
Commercial	1,472,208KWH	1,412,108KWH	1,295,123KWH	1,345,747KWH
Public authority	307,641KWH	294,901KWH	280,751KWH	282,725KWH
Others	271,767KWH	252,650KWH	244,378KWH	320,684KWH
Street lights	135,868KWH	136,114KWH	116,139KWH	129,216KWH
Total	7,209,508KWH	7,291,501KWH	6,899,219KWH	7,124,642KWH
KWH Sold: (Percent)				
Residential	43.69%	43.02%	42.49%	42.60%
Industrial	25.96%	28.24%	29.45%	28.28%
Commercial	20.42%	19.37%	18.77%	18.89%
Public authority	4.27%	4.04%	4.07%	3.97%
Others	3.77%	3.46%	3.54%	4.50%
Street lights	1.88%	1.87%	1.68%	1.81%
Total	100.00%	100.00%	100.00%	100.00%
Sales:				
Residential	\$ 243,218	\$ 219,422	\$ 213,989	\$ 206,293
Industrial	132,419	125,203	121,253	119,852
Commercial	106,642	90,855	81,065	81,764
Public authority	20,258	17,320	16,059	16,038
Other	17,953	14,899	13,980	17,108
Street lights	8,997	7,869	6,446	6,926
Total	\$ 529,487	\$ 475,568	\$ 452,792	\$ 447,981
Sales: (Percent)				
Residential	45.93%	45.15%	47.26%	46.05%
Industrial	25.01%	26.33%	26.78%	26.75%
Commercial	20.14%	19.10%	17.90%	18.25%
Public authority	3.83%	3.64%	3.55%	3.58%
Others	3.39%	3.13%	3.09%	3.82%
Street lights	1.70%	1.65%	1.42%	1.55%
Total	100.00%	100.00%	100.00%	100.00%
Selling Price Per KWH:				
Residential	\$ .07721	\$ .06995	\$ .07301	\$ .06798
Industrial	.07074	.06081	.05967	.05959
Commercial	.07244	.06434	.06259	.06076
Public authority	.06585	.05873	.05720	.05673
Others	.06606	.05897	.05721	.05335
Street lights	.06622	.05781	.05550	.05360
Average all types	\$ .07344	\$ .06522	\$ .06563	\$ .06288

See accompanying independent auditor's report

**SCHEDULE "2"**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**ELECTRIC FUND**

**COMPARATIVE STATISTICAL DATA – KWH PRODUCED AND PURCHASED  
AND KWH SOLD AND LOST**

**UNAUDITED**

	<b>Year Ended</b>			
	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
KWH produced and purchased	7,476,293	7,656,018	7,208,949	7,493,844
Less: sold	7,209,508	7,291,501	6,899,219	7,124,642
Balance Unsold	266,785	364,517	309,730	369,202
Percent Sold	96.43%	95.24%	95.70%	95.07%
Unsold Balance Used as Follows:				
Station service	119,070	110,554	116,460	113,190
Line loss and unaccounted for	147,715	253,963	193,270	256,012
	266,785	364,517	309,730	369,202
Line Loss Percentage	1.98%	3.32%	2.68%	3.42%

See accompanying independent auditor's report



**SCHEDULE "3"****McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA****WATER FUND****COMPARATIVE STATISTICAL DATA  
WATER SOLD AND WATER PUMPED****UNAUDITED**

	<b>Year Ended</b>				
	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
Cubic feet of water pumped	5,776,484	5,143,904	5,120,134	5,366,417	5,219,947
Less: metered sales	3,561,883	3,447,319	3,380,732	3,371,937	3,414,995
Balance - (unmetered sales & unsold water)	2,214,601	1,696,585	1,739,402	1,994,480	1,804,952
Percent of metered sales to water pumped	61.66%	67.02%	66.03%	62.83%	65.42%

See accompanying independent auditor's report

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

Board of Trustees  
McGregor Municipal Utilities  
McGregor, Iowa

We have audited the financial statements of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report expressed unqualified opinions on the financial statements and included a disclaimer of opinion on the required and other supplementary information. In addition, during the year ended June 30, 2004, the McGregor Municipal Utilities adopted GASB Statements No. 34, 37, 38 and 41 which created a new basic financial reporting format.

Compliance

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-A-04.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McGregor Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect McGregor Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described in I-A-04 is also a material weakness. This reportable condition and material weakness is a repeat finding from prior years' audits.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the McGregor Municipal Utilities of the City of McGregor and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 13, 2004

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**REPORTABLE CONDITIONS:**

- I-A-04     **Segregation of Duties** – The size of the Utility’s accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances, and the Board of Trustees remain involved in the financial affairs of the Utility to provide oversight and independent review functions.

**Response** – We will consider this.

**Conclusion** – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-04     **Official Depositories** – A resolution naming all official depositories has not been adopted by the Utilities’ Board of Directors.

**Recommendation** – A resolution naming all the official depositories in accordance with Chapter 12.2C should be adopted by the Board of Trustees. The Board can accomplish this by having their own resolution or by inclusion in the City of McGregor resolution.

**Response** – A resolution naming the official depositories will be adopted in the future.

**Conclusion** – Response accepted.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

- II-B-04     **Certified Budget** – The Utility has prepared a certified budget, which was included with the City of McGregor Budget. Actual operating expenses were under budget.
- II-C-04     **Questionable Disbursements** – We noted no expenditures for parties, banquets or other entertainment for utility employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04     **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-E-04     **Business Transactions** – No business transactions between the Utility and Utility officials or employees were noted.
- II-F-04     **Bond Coverage** – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04     **Board Minutes** – One transaction was found that we believe should have been approved in the Board minutes but was not. Also, the Board minutes did not include information sufficient to determine how each individual member voted on each vote taken.

**Recommendation** - All expenditures should be approved by the Board, with sufficient documentation maintained to evidence proper approval. The Board minutes shall also show the results of each vote taken and information sufficient to indicate the vote of each member present. The vote of each member present shall be made public at the open session. The minutes shall be public records open to public inspection.

**Response** - All expenditures will be approved by the Board prior to payment and procedures have been revised to ensure this is adequately documented. All future Board minutes shall show the results of each vote taken and information sufficient to indicate the vote of each member.

**Conclusion** - Response accepted.

- II-H-04     **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.